

New Loan Limits; A Step In The Right Direction

The transition in the mortgage market has taken another interesting turn thanks to the recent passage of an economic stimulus plan by the House of Representatives that includes proposed increases to conventional loan limits; also known as Government Sponsored Enterprises (GSE). By raising these limits, the intent is to increase the availability of affordable mortgage products to a greater number of homebuyers and homeowners which in turn is expected to help stimulate the housing economy. This economic stimulus plan has the backing of the White House and is currently being debated by the U.S. Senate.

In August 2007, real estate leaders from around the country and representatives from the National Association of Realtors began conversations about the prospect of raising the \$417,000 limit on conforming loans. Currently, the conforming loan limit is the maximum loan government-backed mortgage giants Fannie Mae and Freddie Mac may buy. "Jumbo" loans above the \$417,000 cap are subject to higher interest rates; a gap that widened even more with the credit crunch that started in August.

Realtors also proposed raising the limits on Federal Housing Administration loans; otherwise known as FHA loans. FHA loans are designed for borrowers with higher loan-to-value levels and/or lower credit scores. By raising the limits on FHA loans, there would be an increased number of affordable mortgage options for homebuyers that were formerly targeted for sub-prime loans.

It was clear to Realtors that raising FHA and GSE loan limits could provide a major momentum boost to the national housing economy. Therefore, NAR began reaching out to key figures in the U.S. Senate and House of Representatives to garner support for FHA and GSE reform. One of the key figures was Washington State Senator Patty Murray who serves as Chairman of the Transportation and Housing and Urban Development Subcommittee for the U.S. Senate Committee on Appropriations.

To better understand the national housing economy, Senator Murray met with real estate leaders in December in Washington D.C., including representatives from Washington State. In January, she held a round table session in Seattle with local Realtors and housing industry representatives to discuss the impact of the mortgage market decline and other influencing factors. In both meetings, Senator Murray expressed her profound concern about the effects of tightening credit standards, the sub-prime fall out, and subsequent decline in home sales and increased foreclosure rates.

The results of these meetings and countless conversations between real estate leaders, NAR, and key governmental figures, saw the addition of FHA and GSE reform to President Bush's economic stimulus plan. The plan was passed by the House of Representatives in mid-January and currently resides with the Senate; it is expected to be passed and on President Bush's desk no later than February 15.

As the bill continues to be debated in the Senate, the final form is still unclear; however what we currently know is that the maximum limit for conventional loans is expected to be calculated at 125 percent of an area's median sales price. For the Seattle-King County area, that means our limit would be raised from \$417,000 to \$493,000, which represents about an 18 percent increase. We also know that the proposed FHA and GSE loan limit increases will expire at the end of 2008. This temporary provision is designed to motivate all parties to finalize permanent, wider reaching GSE loan reform. Locally, our hope is that the conforming loan limit will be permanently increased to \$625,000.

The proposed plan is not perfect, but it is a good first step toward increasing the availability of affordably priced mortgage products to a greater number of homebuyers and homeowners. When combined with low interest rates and a strong local economy, the FHA and GSE reform will help to counter some of the negative impact of the tightening credit market. In partnership with the National Association of Realtors, local and national real estate leaders intend to continue to work closely with governmental officials to develop a permanent, more comprehensive solution to the problems facing the housing and mortgage markets.

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